

BEATTY, SIR EDWARD W.

THREE CANADIAN PROBLEMS.

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# Three Canadian Problems

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A STUDY OF THE STATE  
OF THE NATION, AND OF  
THE VITAL NECESSITY  
OF IMMEDIATE ACTION

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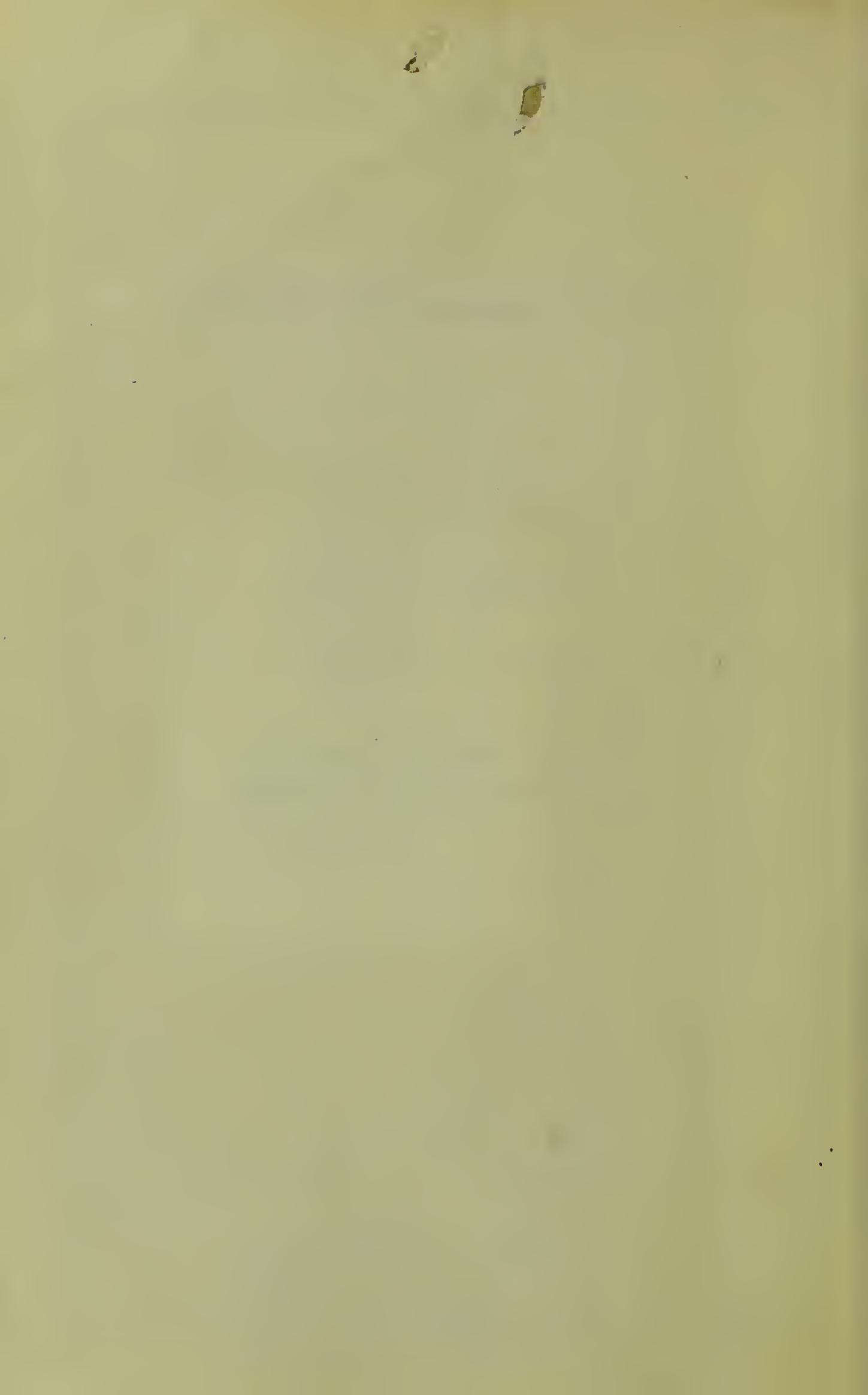
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An Address

DELIVERED BEFORE THE BOARD OF TRADE OF REGINA

February 5th, 1935

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# Three Canadian Problems

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A STUDY OF THE STATE OF THE NATION, AND OF THE  
VITAL NECESSITY OF IMMEDIATE ACTION.

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**A** REGINA audience will not expect an officer of the Canadian Pacific Railway to spend much time explaining why he enjoys an opportunity to speak to them, nor yet to engage in any long exposition of the connection between this city and the Company. The construction of our main line reached this point on August 22nd, 1882; on August 23rd, Sir William Van Horne attended a celebration here in honour of the event; on June 24th, 1882, the Saskatchewan Herald announced Governor Dewdney's choice of this spot as capital of the Northwest Territories; traffic on the new railway began on October 3rd, 1882. The close correspondence of dates is the best indication which I can give you of the fact that this city and my Company began their life together.

For more than half a century we have shared the alternations of prosperity and depression which have marked the history of these plains; and as far as I can see into the future I see our fortunes inextricably linked together.

Sometimes I think that we forget the interdependence of various sections and groups in this Dominion. I am well aware that, in times of economic stress on the Prairies, men are prone to talk of the indifference of "big business" in the East to the needs of the West. As one who, living in Montreal and in daily touch with the affairs of some of our largest corporations, may not unreasonably have to accept any criticisms of "big business" as my own concern, I shall at once admit that I have sometimes found in its ranks less than full appreciation of all the problems of the West. Will you forgive me when I say that, in turn, my close and

constant contact with Western opinion has sometimes made it quite clear to me that the Prairies do not always fully realize the problems of the industrial and commercial interests of the East.

We are today facing conditions in Canada, which while less distressing than those in most other lands, are such as to demand the united effort of all sections of the nation if we are to emerge from our present maze of problems without permanent damage to our national fabric. I am frankly an optimist. During the times when we saw the commerce of this country, and the earnings of its citizens, slowly and apparently incessantly shrinking, I refused to accept the doctrines of despair which were so freely preached. I do not accept them today. I remain convinced that the destiny of our country is not to be fulfilled by our accepting defeat, and the denial of all the reasonable ambitions which we have confidently held, and have taught to our youth.

On the other hand, I hope I am not an unthinking optimist. I know only too well the uncorrected mistakes in our own national life, and even more in that of nations whose prosperity is bound up with our own; I appreciate only too well that corrections must be made before we can hope for great and permanent betterment of conditions; and I know with certainty that never again can we subordinate the interests of the nation to narrow sectional ambitions, or to the demands of any class for special privilege, if we are to achieve the restoration of the common life of this country to activity which it should enjoy.

Let us admit in all frankness that such placing of the needs of the nation ahead of those of section or of class has not always dominated our national life. I do not take our failures in this respect as too serious an index of our national character. A handful of active and energetic people given the resources of half a continent to exploit might not unreasonably fail to give as much thought to their duties as to their opportunities. Virgin soil free of rent, and stretching boundlessly to the horizon, forests in which a

giant tree might be freely felled to obtain a choice log or two, or where acres of pulpwood might be cleared without thinking of replacement, mines which the finder might have for the simple formality of recording his claim, this was the medium in which our forebears founded the nation. Our circumstances planted in our minds a profound conviction that all that we needed to do was to get, and that no one needed to give. We became a race of people industrious but not thrifty; eager to win wealth with little plan of conserving it.

In such a community the state became a mere machine for making the citizens prosperous. Where, in older communities, the citizen knew that he lived only by serving the nation, and that national wealth was but the product of the toil and thrift of the nation, here we learned to think of the state as the giver of wealth, and to think of the individual citizen as one to whom the state owed a duty, not as one owing a duty to the state.

Some of you may feel that these are pious platitudes. They are not, as far as I am concerned. I have recorded them, because it is from my growing belief in their importance that I have come to certain views and conclusions which I propose to express today.

I am no innocent idealist. I do not expect to see a sudden and wholesale conversion of this nation from a body of sturdy individualists to a community of pure patriots, each of whom places the interests of the nation at all times ahead of his private profit. What I say is simply that we have now come to the time in our national life when we shall be forced—if we propose to continue to exist and progress as an organized society—to think exactly along the lines which I have defined.

It is owing to my faith in this needed change in our outlook, and in the character of the Canadian people, that I have come here today to make what I propose to be the frankest and most direct of all the many public addresses which I have made. I have given

you the outline of the theory which I hold. This is not, however, a sermon, nor yet a lecture by a professor of economics or of philosophy. It is a talk by a business man to other business men, and I promise that you will have no reason to say that I have failed to deal with concrete facts, nor deal with them candidly.

I think you will believe me when I say that the first subject with which I intend to deal is the tariff. The protective tariff has become the special property of politicians, and I am no politician. I have been warned that, no matter how honest my intentions, or how diplomatic my treatment, any discussion of the protective tariff is bound to involve me in politics. I do not believe that. I deny absolutely that the tariff is a subject for politicians only, however well established the tradition to that effect. Take the case of the Canadian Pacific Railway. It is so intimately bound up with the economic life of the nation that its officers have found it necessary to abstain rigidly from anything which even savours of political activity. Yet its prosperity—indeed its very existence—depends on two factors: one, the purchasing power of the average Canadian; the other, the degree to which that purchasing power is employed to create traffic on the Company's lines. How can it be said, in common sense, that one whose duty is to conserve and administer the Company's property could remain indifferent to a national economic policy which must affect the life and the pocketbook of every inhabitant of the country?

Nor yet shall I fear that your first response will be that after telling you that we must place the interests of the state before those of the individual I then go on to argue that I have a right to demand that our tariff policy should consider the interests of the Canadian Pacific Railway. That might be a fair line of attack were that Company one serving a small section of this country, or some special industries. As I have already said, the safety of the Company depends on the prosperity of the Canadian people as a whole. Given a tariff policy good for Canada, I am quite willing to take my chance that it will be good for the Canadian Pacific Railway.

If you prefer it, let me put it this way. Give me a tariff policy advantageous to the Canadian National Railways, and I shall be quite content.

Now I say at once that I have no faith in any extreme doctrine concerning the tariff. I am neither a believer in protection with no limit, nor in free trade. I do not believe that either of these plans would tend to what I desire—which is the maximum of national wealth fairly distributed among the citizens of Canada. Land, labour, money and goods are all potential forms of wealth, but no more than that. In our modern civilization the individual cannot be wealthy if the community is poor, and the wealth of a community is not a fixed quantity. It is in reality represented by the volume of the country's business, and as Sir Josiah Stamp has said, "Wealth is exchange."

If then I desire a tariff which will add most to our wealth, I see clearly that it must be one which will keep our internal and external trade combined at the maximum. Since we are large exporters of important commodities, which must be paid for by imports, except to the extent that we have debts abroad on which we must pay interest, prohibitory tariffs on every sort of commodity could only check our external trade. On the other hand, since our internal commerce is even larger than our external, the free admission to this country of all the products of the world would, in my opinion for what it is worth, have prevented us from such a development of industry as we have experienced. Indeed, I go as far as to assert that experience has shown that unlimited free trade might actually lower and not raise the volume of our imports and exports, and as the Company with which I am connected is engaged in ocean shipping on a great scale, you may rest assured that I make that assertion in all seriousness, for nothing could do more to ease the burdens of my office than a great expansion in the volume of our overseas commerce, which would bring with it as well the enlargement of the tonnage handled on our rail lines.

I say that this view is founded on experience. There are in the New World two other countries not unlike Canada in general

type—the United States and the Argentine Republic. Of these, one—the United States—has a long history of attempts to exclude foreign goods as completely as possible. The foreign trade of that great nation is, per capita of population, far less than that of our own country, the comparison being, for the calendar year 1933, a total of foreign commerce per capita of \$26.66 for the United States, as compared with \$86.79 for Canada.

The Argentine Republic has, up to very recently, been notably inclined to a policy of free trade. Under that system its foreign trade compares with that of Canada unfavourably, the per capita figure for the South American country being \$59.53 for 1933, compared with our figure of \$86.79.

In addition, while it is impossible to produce figures to prove this statement, I believe from general knowledge of the situation that I am safe in saying that the internal commerce of Canada is at least as great per capita as in the United States, and much larger than in the Argentine Republic.

Despite this evidence that we have in general followed a tariff policy which has avoided dangerous extremes, and despite the visible fact that we have under it built up an economic system in Canada which has largely checked the exodus of our ambitious youth to the neighbouring Republic, I do not feel that we should take the attitude that the tariff is sacrosanct. It is encouraging to note that no political party suggests drastic revision in either direction at present, and this, as contributing to stability and confidence, is highly important.

Yet I am not certain that there should not be some revision of our policy in this respect. No one is certain, as a matter of fact, for we have never at any time attempted what I should like to see done—the preparation of a tariff balance sheet, an analysis of the effect of the tariff on the total income and purchasing power of the Canadian people. It is not impossible that such an analysis might

reveal cases in which we have tried to protect industries of a type not economically advantageous for the country as a whole, and that the burden thus placed on the consumer, and the check given to our ability to purchase goods from those who are willing to buy from us have outweighed the advantage to investors and the employment provided for our workers.

It is not my suggestion that in the event of such cases being found we should proceed to make rash attempts to correct them. There may be instances where the owners of such industries have used the protection given them to permit them to exploit the consumer, and in those cases there can be no possible reason for hesitation in taking steps to correct the evil. In many cases, however, even of industries which might well have never been established in Canada, the capital invested has never received unreasonable returns and it would be unwise and unjust to permit the investment to be destroyed. What is far more important, labour must be considered. We cannot, as a concession to economic theory, however correct, take steps which would add to the already too great number of our unemployed except where the resulting benefit to our economic life would be so great as to justify belief in a compensating stimulation of other forms of employment.

On the whole, it is my view that examination of the economic soundness of our tariff policy should result rather in some improvement in our future plans than in too drastic attempts at correction of past errors. It is easy to inveigh against the use of the protective tariff to make profits, but we cannot forget for a moment that it has also created wages and purchasing power.

The business life of the country is a highly organized affair—almost as complicated as the life of a human being. The wise physician will not attempt an operation, however badly needed for the correction of a local defect, at the risk of severe disturbance of major vital processes, and I have confidence enough in the good sense of our people to believe that in our efforts to correct abuses

which have crept into our economic system we shall not fall into the error of trying to do too much too soon.

My appeal is for a new angle in considering the tariff question. We must think of it, not as a matter of giving certain people an opportunity to make great profits, nor yet only from the standpoint of the consumer trying to buy as cheaply as possible. We must take Canada as the country now is, in 1935, not a generation ago. We must try to learn how well our experiments in developing the country under the protective system have worked for the advantage of the country as a whole. We must accept some errors which cannot be corrected except at a cost excessive compared with the results. We must correct those which can be dealt with. We must make sure that we make no errors in the future.

In a word, we must lift this, as well as other vital economic questions, above the plane of a struggle for sectional, class, or party advantage. In this, as well as in all the measures which we take to better our condition, we must learn to place the country above the individual, and the state above the section or the party.

Keeping my promise regarding frankness, I shall now tackle the vexed problem of our agricultural industry. I am told that on this point I do not face so much political complications as the resentment of Western farmers at advice from Eastern business men.

Admittedly I am a business man living in Eastern Canada—but surely my lifelong service to the Canadian Pacific Railway makes me at least something of a Westerner, for no one has ever suggested that the Company is not Western in outlook. As to my right to discuss agriculture, I take it that you will admit my interest in the subject. The Canadian Pacific has many interests, but none so important as its function in moving the Western farmer's crops to market, and bringing back what he buys. I shall speak about agriculture, and take the risk of unfavourable comment. If what I say is erroneous, I trust that my errors will be

pointed out, for nothing could be worse for the interests of the farmers of the West than that their railways should be operated by men who do not understand the farmer's problems, nor correctly gauge the outlook for agriculture.

To me agriculture is *the* primary industry in a very special sense, for it is the only calling which cannot be destroyed. We could have a country of sorts here without other activities, and even without a central Government, but farm homes, and annual tilling of the soil, we shall have while human life exists in Canada. In this primary importance of his calling is the farmer's great strength, and his great weakness. He cannot be forced out of existence ; on the other hand, since in a community of high ideals of democracy and liberty, individual farmsteads are the inevitable form of agriculture, he finds himself one of a class which does not lend itself as readily to grouping in great economic systems as do the capitalists and workers of other social groups.

No one knows better than I that agriculture in Western Canada is passing through a period of great difficulty, and that the many well meant attempts to rescue it from its troubles have been at best only partially successful. As far as is possible—and that is to a very limited extent—tariff protection has been accorded to the farmer ; arrangements have been made to prevent too drastic suffering under the burden of debt ; provision has been made for those who suffered acutely from drought ; and the foreign trade policy of the country has included constant attempts to seek new markets for our farm products, or to revive old ones which seemed to be shrinking. To a very marked extent policies intended to aid agriculture have been carried out by co-operation between Governments, often of varying political faiths, and political criticism of these policies has shown remarkable freedom from bitterness, and has been on the whole constructive.

Within their more modest ambit, private financial institutions have co-operated actively with the Canada Colonization Association, the Colonization Finance Corporation, and the Dominion

Agricultural Credits Company in attempts to ease the burdens and aid the recovery of distressed farmers, while the Company which I represent has tried in good faith, and in complete accord with the competing transportation system, to play its part. I may say, without boasting, that the emergency reductions in freight rates voluntarily made by the Canadian Pacific Railway for farm relief during the past five years represent a loss in income to us of at least \$3,000,000. It is our simple duty in difficult times to make our contribution to those whose industry provides us with our chief source of business. It is our sole regret that we have not been wealthy enough to do more, but, as you know, during this same period the shareholders of the Company have found it necessary to accept a complete if only temporary cessation of all return on their investment.

With all the aid possible, however, the farmers of Western Canada have experienced a trying time, which they have borne with a courage which is an example to others. Their prosperity depends to a great extent on forces beyond the control of any human authority—on the rainfall and sunshine of the whole globe, and on all the complex factors which make international commerce active or otherwise. I have never been one of those who accepted the idea that the world faced a great and lasting overproduction of agricultural commodities. In 1933 a very distinguished English economist visiting the World Grain Congress in this city said that, while he was not a specialist in wheat, and there might be some local and temporary overproduction in that case, he was certain that there was no world overproduction of food. That remark occurs to my mind at this moment. In the great country to the South of us a visitation of nature has reduced the yield of all grains, in 1934, some two billion bushels below the five-year average. As every farmer knows, there are many expedients in meeting a short crop of feed. The herds and flocks may be culled of their poorest members; substitutes can be found to a limited extent; and almost miraculous savings can be made by high efficiency in feeding. In the end, however, such a loss of crops as I

have mentioned must have its effect, and already there has been a welcome if unusual sale of certain types of grain and foodstuffs across the border. I make no forecast of the detailed results, but I feel confident that, either by heavy purchases of grain, or by reduction of livestock production in the United States and a later demand for supplies from Canada, the general effect of the recent crop disaster will be to correct any temporary overproduction which may have occurred in recent years. It is as yet too early to suggest definitely what if any steps the farmers of Western Canada should take to be best situated to draw advantage from the circumstances. Later I have no doubt the officers of the Dominion and Provincial Departments of Agriculture will recommend the course to be followed—possibly an increase in the area sown to feed grains rather than to wheat. I trust that any opening of temporary markets in the United States will not cause us to neglect our great and permanent market in Great Britain.

So much for emergency measures of aid, and for a temporary prospect of recovery. There still remains much to be done to place the agriculture of Western Canada on a basis which will permit it to feel full recovery and to be protected against disaster more completely than was the case in the recent crash.

The necessary measures are two—as I see them. First, there is what the farmer himself can do. That can be summed up in a very few words, and I scarcely think that Western farmers need advice from me on these points. They realize more fully than ever before the possibility of making the farm home largely self-supporting. They appreciate the importance of speeding up the process which they have long been carrying on, of expanding their livestock operations as rapidly as possible in those areas which are suited to this type of farming. They have shown, during a great economic disaster, unceasing and increasing interest in improving the efficiency of their operations—in the use of better seed and improved cultural methods. The people of Western Canada will solve their own problems as far as it lies in their power to do so. Second, there is

what others can do to help Western agriculture. One of the great benefits which has come out of the chaos of the past few years has been a profound realization of the economic importance of Western Canada, and above all of Western agriculture, to the rest of the nation. I said earlier in this address that I had sometimes found leaders of "big business" not fully informed on this point, but I can say today that anyone who still has doubts must be very careless in studying the business statistics of the country, picturing, as they do, the impossibility of complete economic recovery in Canada until agriculture is restored to its proper state of profitable activity.

I say without hesitation that the capital invested in the farms of this country must receive returns if any important block of capital is to be regarded as safe from risk, and that other labour cannot hope for the permanence of a level of real wages which is too high above the earnings of labour on the land. I know that this belief is shared by the leaders in every branch of "big business."

How this faith can be expressed in works is not easy to say. It can and will result in full support by other classes of the community of governmental attempts to aid agriculture, but I have already indicated that I doubt whether these, however skilful, can solve all the farmer's problems. Our faith in agriculture must take the form of a flow of capital adequate to meet the needs of our basic industry, but, except in special cases, the farmer readily admits that he has suffered rather from too easy credit in the boom days than from too severe an attitude on the part of the lenders. Certainly, there must be a continuance of credit, which means of confidence. Confidence in the high standards of honesty and courage of the Western farmer is deserved, and appreciation of them will aid measurably in reducing pressure for the too early repayment of maturing obligations.

In general I admit that the one problem which seems to me to be as yet unsolved is how to bring the universal appreciation of the

basic economic importance of agriculture to bear on the present and pressing problems of the farmer, but I am certain that we shall find the way. Sometimes you hear it suggested that all that business men think of is how to make money out of the farmer. That is not, and never has been in my experience, a full or fair statement of the case. Even were our business men as cold-blooded as this would suggest, ordinary intelligence would teach them the folly of attempts at exploitation of a community struggling to maintain only a modest standard of living. Without as yet seeing clearly the road along which private business can move to aid agriculture, I can express my unswerving confidence that the road will be found, and is today being eagerly sought.

I come now to the third and last of my topics, and I do not expect you to show surprise when I say that it is the railway problem. On this point I am warned that you may be tired of hearing about it. In that case you are not the keen business men which my long experience of the West has led me to believe. It is not my problem only—it is yours.

The people of Canada pay for the services which they receive. They pay all the costs of Government. They pay for the upkeep and operation of the transportation system of the nation. Owing to our many indirect methods of raising taxes, they are sometimes forgetful of the fact that the price of everything which is bought or sold in Canada must to some extent reflect the cost of transportation.

In the calendar year 1933 the traffic earnings of the two major Canadian railway systems amounted to approximately \$262,000,000. In addition as taxpayers you and all other Canadians paid or will later pay to the Dominion Government \$96,000,000 to cover the amount by which earnings of the Canadian National Railways failed to meet the obligations of the system. Thus the total cost of the major item of transportation to you—the people of Canada—7 was \$358,000,000.

To no one can this be more important than to you in Western Canada, owing to the geography of the country, which makes transportation so important a factor in your business affairs.

How was this money spent by the railways? In the case of the Canadian Pacific some \$21,000,000 of this was paid to creditors—i.e., bond and debenture holders and pensioned employees; nothing was paid out to the shareholders; the rest was paid out for labour, materials, taxes and other usual purposes. In the case of the Canadian National Railways, some \$92,000,000 of the \$96,000,000 provided by the Government went to the creditors—i.e., holders of Canadian National or Dominion Government bonds sold to meet past expenditures on the system; and the rest of the \$96,000,000 plus all traffic earnings went for labour, materials, taxation, and other usual purposes.

In the case of the Canadian Pacific Railway our expenditures for every purpose were held to an absolute minimum consistent with service to the public, and maintenance of the property. I shall not speak on this point for the management of the other system, but I feel certain that they will claim to have exercised scrupulous care in avoiding unnecessary expenditures.

If these claims are correct, you paid the minimum under existing competitive conditions for the services which you received. As you probably know, the cost to the public, in freight charges, of moving a ton of goods a mile in Canada, is as low as in any major country of the world, and far lower than in the countries which compete with us for markets abroad. ~~The greatest single item in our traffic—the Canadian wheat crop—is,~~ I think I can say without boasting, moved more efficiently than in any other country of the world, and at a rate per ton per mile which is literally ridiculously low as compared with similar charges in many other wheat growing areas. Unhappily the full advantage of these low rates has not been retained, because on top of the actual freight charges there must be added the taxes paid or to be paid to meet the annual deficits of the Canadian National Railways. ✕

The real cost of transportation in Canada is not as cheap therefore as it seems to be, and it should be as cheap as possible. While our ton-mile charges are small, we have, as a result of geographical conditions which cannot be altered, more miles for each ton to travel than in any other country. Western Canada is shut off from the areas from which it buys and to which it sells by a mass of mountains on the West, and a great stretch of almost unproductive territory on the East. To an increasing degree we have tried to turn these barriers into traffic producing areas, but with all our development of tourist business and of mines we shall never eliminate the long and difficult hauls to which the business of Western Canada must be subject. Cost of transportation whether paid in freight rates or in taxes must at all times be a matter of the gravest concern to all Canada, and especially to the West.

I know that we shall steadily improve the efficiency of our railways, but in the first place important improvements in motive power or rolling stock meet the immediate difficulty of finding capital to finance them, and we already have a huge investment in existing equipment which cannot be scrapped. Secondly, you must not exaggerate what can be done to improve railway operating efficiency because you read occasional sensational statements. I give you the word of a railway man of some experience that progress along these lines must of necessity be slow.

It has been suggested that we drastically reduce wages, but it must be remembered that Canadian railways must keep the remuneration of their employees in general accord with the standards of this continent as far as conditions permit. Further, railway employees do not only draw wages—they spend them, for the goods and services of other groups. I feel that railway, as well as many other wages, are out of line with the return to the farmer for his labour, but I deny that they are absolutely too high, and I look for the correction of this discrepancy to an increase in the farmer's earnings rather than to a lowering of the standard of living of railway workers. For my part, I believe that efficiency of organization and operation should be carried to the limit before we

accept the defeatist doctrine of permanently lowered wages, thus reducing the purchasing power of a large section of our people.

There are some who suggest the solution to the railway problem is to be found in an increase in freight rates. It is true that our rates are among the lowest in the world, as I have already said, and in some cases they may be unnecessarily low. The freight rate structure is, however, a complex affair, and radical changes in it may produce unfortunate effects. A considerable increase in the rate on any major type of traffic could scarcely fail to be damaging to the national interest, and for my part I should regret to see this tried until everything possible has been done to eliminate waste in our transportation system.

You will be interested to know that during the past five years the Canadian railways have reduced rates in cases affecting millions of items in their tariffs; that a hundred have been reduced to every one increased, and that this has not been done in any case under order of the Board of Railway Commissioners, but mainly because of business reasons and in an attempt to stimulate traffic. In some cases it has been done to meet competitive conditions, but reductions for that reason only represent an insignificant proportion of those made. You will appreciate, therefore, that the trend has been downward and in spite of unsatisfactory net earnings is still continuing.

There are those who argue that this problem of correcting waste in transportation does not really exist, and that all that we need to do is to await the return of something called prosperity to cure our troubles. I am sorry to say that this is the cold comfort which has been offered by some very eminent men, including at least one Minister of the Crown. I know that times will be better—but times were pretty good in 1925 to 1929. I do not recommend you to regard a restoration of business to the levels of those years as the sort of thing which will come overnight. If we are to have such prosperity here again it will not be as a gift from Heaven,

but as the result of our own industry and thrift. Even in those years, however, the total transportation bill of the country was large, and during exactly those years we engaged in a process of such heavy expenditures in connection with the Canadian National Railways as to pile up a mass of debt which must be serviced and paid. In 1928, the best transportation year the country has known, the deficit of the Canadian National Railways, as recorded in their own books, was \$29,800,000. Even such an active condition of business as existed in 1928 would mean a deficit as large or larger in 1935 despite greater economy in operations, for the debt of the system is much greater today than it was then. The increase is given in their own publications as almost half a billion dollars. Owing to the absorption of the annual cash deficit in 1932 and 1933 into the Government accounts, the full increase in this debt no longer appears in Canadian National Railways reports, but it is in actual fact growing at the rate of almost ninety million dollars per annum.

You have been told that a most promising sign is the great reduction made in the operating expenses of both railways since 1929. In the case of the Canadian Pacific, we have reported these reductions to our shareholders to indicate that, much to our regret, as fast as traffic falls off we find it necessary to cut expenses. I ask that you keep this in mind with regard to the Canadian National Railways and remember that, even allowing for some permanent economies, the bulk of the reduction in operating expenses made in recent years will be undone as traffic increases. Do not for a moment imagine that these natural reductions can be regarded as a successful attempt to contribute to the solution of this problem.

Again, an important and much respected journal has suggested that the cure lies in "squeezing the Government's water out of Canadian National Railways capitalization." As far as I know, "water" in capitalization is the popular term used to describe corporation securities which do not represent any actual subscription of cash to the undertaking. I wish to assure you that the

✓ figures which the Canadian National Railways issue to indicate the debt owing the Government are not written in water. Every dollar of these figures represents one hundred cents either put up in hard cash by the Government of Canada to the Railway itself or paid out by the Government for railway account. If this is "water" then I am sorry to say that it is the hardest "water" that I ever saw. You, the taxpayers of Canada, are paying or will pay the interest and the principal in full on every hundred dollars shown in the Canadian National Railways statement of their debt to the Government of Canada. In the end every dollar owed by the publicly-owned railway to the Government is owed in turn by the Government to a private investor, who is going to collect it. No ingenuities of bookkeeping or no attempts to distinguish between debt to the Government and debt to the public will reduce by one cent the burden which the taxpayers of Canada must meet in this respect.

✓ This journal and others have intimated that my proposal will result in the Canadian Pacific taking over the assets of the Canadian National while the liabilities would be left with the Government. Unified management will do nothing of the kind. The physical assets of the Canadian National will remain the property of the Government, and those of the Canadian Pacific the property of its owners. Similarly the liabilities of the Canadian National must remain the responsibility of the Government and the liabilities of the Canadian Pacific must remain that of its owners. However, if the assets of both companies are administered by a unified management an end will be put to the waste of competition and the owners of the Canadian National will receive more money with which to meet their obligations.

The same journal quotes with approval the suggestion that the excessive debt of the Canadian National Railways is the consequence of careless expenditures made by private enterprises. What are the facts? The Dominion Bureau of Statistics gives the total debt of constituent lines assumed by the Canadian National system

as \$1,336,000,000 when they were taken over. Private enterprise surely cannot be held responsible for the \$404,000,000 of this which was the cost of the Intercolonial, the National Transcontinental, and the other lines comprising the Canadian Government Railways. These lines were built by the Government, not by private capitalists, and, as a matter of fact, the Canadian National Railways have paid no rent nor been charged any interest on this part of its capitalization. The Canadian Northern bonds account for another \$413,000,000 of the total. A Board of Arbitration asserted that the common stock of this Company had some value and the Government, in addition to assuming the full bond issue, paid \$10,000,000 to acquire the outstanding equity stock. Under these circumstances private enterprise cannot be charged with responsibility for excessive bond issues. The Grand Trunk obligations taken over amounted to \$310,000,000. I have never heard it suggested that the Government did not get full value from this transaction. On the other hand, you have all heard of the claims of the preference and common shareholders of the Grand Trunk, who received no compensation for their securities. They insist that something of considerable value was taken away from them. The Grand Trunk was acquired under an agreement entered into freely by the Government and again the amount cannot be charged against private enterprise. The one item remaining in which any grounds exist for the contention is the \$209,000,000 representing the obligations of the Grand Trunk Pacific. Granting extravagance in the construction of this line paralleling existing lines and to a standard of excellence beyond reasonable requirements, even to the extent of, say, one-quarter of the debt, the excess capitalization would be about \$50,000,000, but is it fair to blame this solely on private enterprise? The Drayton-Aeworth Commission thought not when it stated that though the outward form was that of a private company, substantially the enterprise rested on the responsibility of the Governments, national and provincial, and the railway was built in accordance with specifications determined by the Government of the day.

We have seen that, at most, about \$50,000,000 of the \$1,336,000,000 which the Canadian National Railways inherited from its constituent lines can possibly be attributed to the mistakes of private capital. This debt has more than doubled since that time, so that, apart from the deficits absorbed in the Government accounts, the Canadian National balance sheet at the end of 1933 shows it as \$2,745,000,000. How can private capitalists be blamed for this increase of \$1,409,000,000 in debt during Government operation? In the end we find the following illuminating summary:

Cost of railways built by the Government prior to 1919....	\$ 404,000,000
Canadian Northern obligations assumed, which, as previously stated, an independent board of arbitration found to be fully represented by value in the property.....	413,000,000
Grand Trunk obligations assumed, which, as previously stated, excluded all preference and common stock issues...	310,000,000
Grand Trunk Pacific obligations assumed, less \$50,000,000 possible excess expenditure .....	159,000,000
Amount spent by Government in losses and on capital account since acquisition .....	1,409,000,000
A total of .....	\$2,695,000,000
Possible excess expenditure on Grand Trunk Pacific.....	50,000,000
Total debt at end of 1933 Canadian National Railway System .....	\$2,745,000,000

We thus reach the conclusion that of the total debt of the Canadian National System, \$1,813,000,000 was the result of direct Government expenditures or losses; \$723,000,000 bonds assumed by the Government upon acquisition of the Canadian Northern and Grand Trunk properties at not more than their then net value; \$159,000,000 for the Grand Trunk Pacific less over-expenditures. In percentages, this means that the Government alone is responsible for over 66 per cent of the costs; 26 per cent results from the acquisition of properties found to be worth the

price paid, and 6 per cent is represented by the reasonable cost of the Grand Trunk Pacific. This leaves only 2 per cent as the possible excessive debt due to the errors of private capitalists. The Government itself must take a large part of the responsibility for even this 2 per cent as it fixed the standard of construction. It would appear that the statement made by the paper has no reasonable basis and is, in fact, palpably untrue.

But what help is it today to try to decide how much of the debt is due to the errors of private capitalists and how much to the mistakes of public ownership? Interest charges which in 1919 were \$38,000,000, last year were \$92,000,000. It has been aptly said: "There is no man in this country capable of facing facts who believes that we can carry this burden indefinitely."

We, the people of Canada, owe directly or indirectly to private capitalists over \$2,700,000,000 on account of this railway system. We are going to pay this, because we promised to. Are you going to allow your judgment to be warped by complex arguments about doing justice to public ownership? Or are you going to agree with me to leave the ownership of the Canadian National Railways in the hands of the public—since they could not possibly get rid of it—and devote our entire energy to finding a method of making the burden of this ownership as light as possible to the people of Canada?

I am an optimist, and it distresses me to have to argue against the views of others when they are optimistic, but I cannot accept the plan of waiting for good times to come again. Especially do I distrust this argument when I see it carried so far as to say that, since under the existing traffic volume we cannot entirely wipe out the deficit of the Canadian National Railways, we should wait patiently until business booms, in the pious hope that no action will then be necessary. There are those who would have you believe that under present business conditions there is no cure for the railway burden.

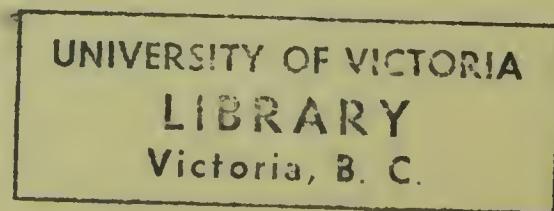
What if the expected business improvement is a long time delayed? Do you realize the dangerous position of an undertaking which is operating at a loss while its debts compound?

Do you realize that even if our earnings improved so that all charges due to the public by both roads were earned, and reasonable dividends were paid to Canadian Pacific shareholders, there would still be a waste of over \$75,000,000 a year due to maintaining duplicate facilities and services, which could be abolished?

Do you, in a word, wish to continue to pay more than you need for transportation because someone says that at some distant date you may be so prosperous that you can stand this unnecessary cost?

Taking it that as business men you will not wish to gamble with a burden of railway deficits which already threatens the financial stability of the nation when a reasonable alternative is available, I have suggested what seems to me to be the only adequate course—the unified management of the two major railway systems. The amount which can be saved annually—now, not in some bright day to come—was calculated by officers of the Canadian Pacific Railway, and their figures tallied closely with those given to the Royal Commission by the late Sir Henry Thornton, and by Mr. S. W. Fairweather of the Canadian National Railways. My estimate was based on the traffic conditions of 1930, an average traffic year, and on that basis I put the figure at \$75,000,000. Sir Henry Thornton, who opposed my plan, gave his estimate as \$60,000,000 and Mr. Fairweather suggested \$56,000,000 for a year of normal traffic. In justice to Mr. Fairweather I must state that he has since said that he told the Commission that his estimate could not be realized. I believed then and believe now that mine can be.

I have tried to make my case as realistic as possible; I have quoted figures in good faith, with the hope that they would impress the people of Canada; I have not deliberately exaggerated them;



their realization in fact would of course depend on the general level of business conditions in Canada. I know that money is to be saved in large amounts and that the condition and prospect of the country make it wise to undertake the saving. Hair-splitting as to the amount of the savings does not interest me, and should not interest you.

Whether the savings be \$50,000,000 or \$75,000,000 they will be important enough to lessen the burden of the country, and to bring us close to the end of the period of constantly compounding railway deficits.

My suggestion has met with much criticism. I am told that no one group of men could properly administer the unified railways—but surely this suggestion is not made seriously. We have available, in the staffs of the two systems, railway talent and experience fully adequate for the task. I think that I know enough about railroading to take pride in the ability, the loyalty, and the integrity of the staff of the Canadian National Railways, as well as in those qualities when exhibited by the officers and employees of my own Company. I am told that I am talking of setting up a great monopoly which might become oppressive. Do you picture any Government agreeing to unification on terms which would permit this? Or surviving if it did? I am told that rates might be raised. The rate structure in this country has not been kept low by competition, but by common sense on the part of railway men and supervision by the Board of Railway Commissioners. Those forces will still be effective, and any one who argues to the contrary can only be doing so in order to delude you.

I am told that I propose to throw thousands of men out of work. I repeat what I have already said—that protection for labour is a necessary part of my plan, and that savings in that regard should be made gradually, wisely and considerately, and without hardship to those now dependent on railway employment. I make no claim of unusual humanitarian qualities, but I trust I

have not a reputation for indifference to the welfare of those associated with me in business. Nothing could be more distressing to me than to see more added to the tragic army of the unemployed, and within my power I pledge myself solemnly to do what I can to prevent such a development. It is indeed my hope and belief that the methods which I suggest will operate to prevent an even more disastrous period of low wages and unemployment than that through which we are passing. Surely the labour leaders of this country are the intelligent men that I have always found them to be and will tell their constituents that waste of the country's wealth on useless services can damage no one more certainly and more severely than those who depend on their labour for their living. I venture the prophecy that as events develop and the increased thought being given to the subject produces its effect, railway employees generally, and particularly the recognized representatives of organized labour which forms such a considerable part of railway staffs, will not only recognize the inevitability of, but will come to urge rather than to oppose some such measure as I have suggested as in their own best interest.

Finally, I am told that I have given no definite details of my plan. I cannot even be expected to recommend it to the owners of the property, in the management of which I share, until the Government of Canada has accepted it in principle and is ready to negotiate a detailed agreement. When a competent authority is ready to deal with my proposal or offer a better alternative, I assure you that you will have no reason to complain of delay, or lack of definiteness on my part.

It is said that the recent Royal Commission reported unanimously against unification. That is incorrect. They did agree upon a plan of co-operation which they believed would give relief to the taxpayers of Canada. In their report they stated definitely that some of their members would have preferred a plan which would take the Government of Canada out of the railway business. Co-operation has been tried. We now know that it can produce but a

fraction of the savings which its advocates promised the Royal Commission. To my mind the vital point in the conclusions of the Commission is the urgent need of large economies to give relief to the Federal Treasury. I said then and I say now that the time has come for something far more decisive than I can see as a result from our experiment in co-operation.

I am told that I am thinking first of the shareholders and bond-holders of the Canadian Pacific Railway. I *am* thinking of them. I think of them, however, only and entirely to the extent that any honest and well disposed Canadian will. I wish to see them dealt with fairly, so that this country's reputation shall not be stained. I do not need to go beyond this in care of their interests. Those are so closely bound up with the general interests of the country that anything which I can offer which will help Canada will help them. The Canadian Pacific Railway is not a bankrupt undertaking. It is a thoroughly solvent one, suffering today from the general economic distress of the world, and from the consequences of past follies in the overbuilding of railways. It has paid a modest return to its owners in the past, and can do so again. Even if my plan is not adopted, nor a better alternative found, the Canadian Pacific will again pay reasonable profits to its owners, but only at the cost of a wasteful and unnecessary struggle for business with an institution financed by the Government of Canada, at excessive expense to the public. If it is to the good of anyone that this condition should continue, I do not know who he is. All that our investors can gain from what I suggest would be a restoration of a modest return on their investment and security in the future, both from destructive competition, and from such a breakdown of Canadian business as may well result from continuance of the present unnecessary strain on the finances of the Government.

It is even said that I suggest that the restoration of the dividends of Canadian Pacific Railway shareholders should be the first charge on my promised savings, and that after that is done, there will be little left for the people of Canada. I shall meet that

criticism in plain words. I have never made any such suggestion. It would be ridiculous. I have recommended a bargain between two groups of owners. On the terms of that bargain, and the general condition of business, would depend what the owners of the Canadian Pacific Railway would receive.

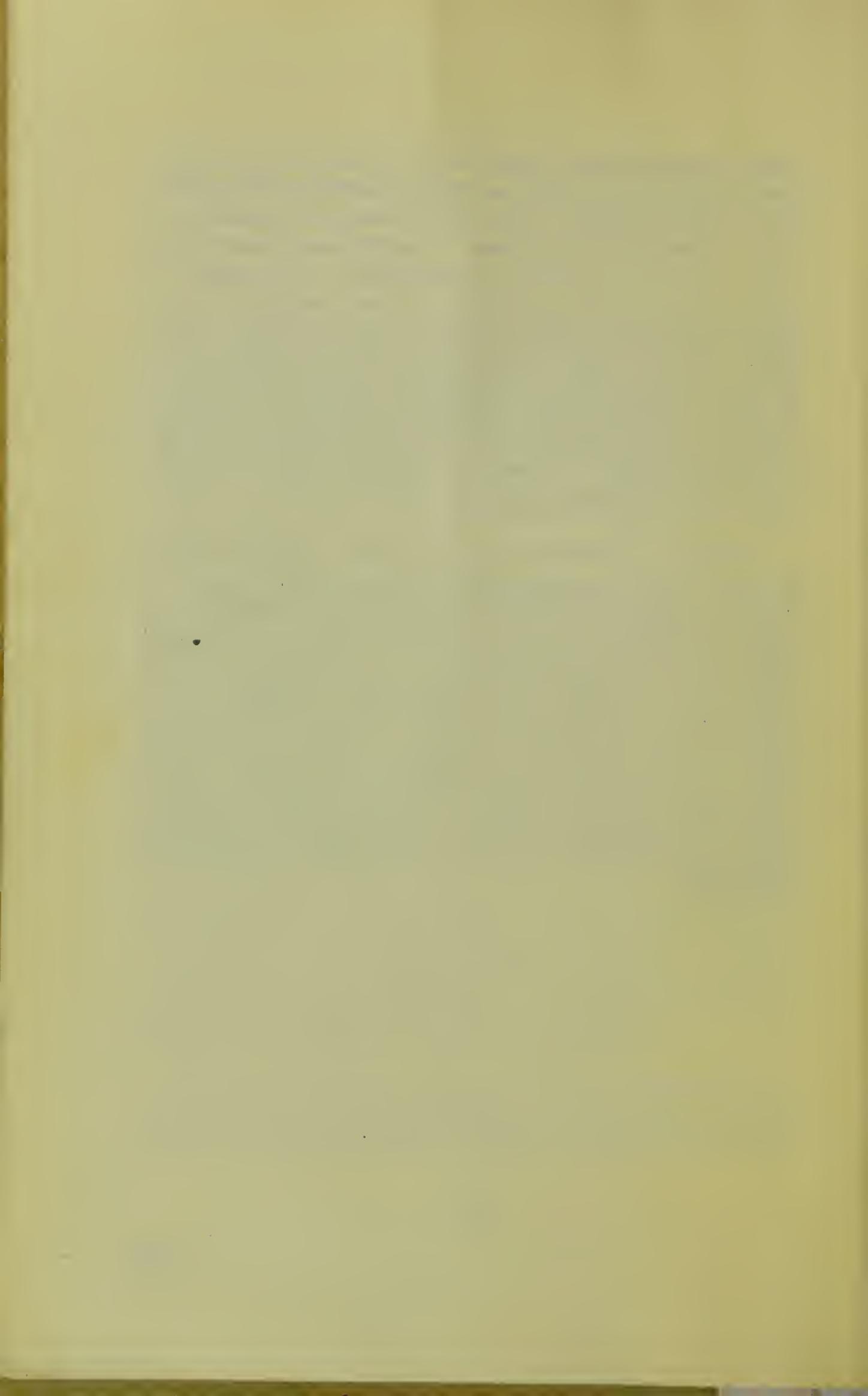
On the other hand, no one would expect me to accept the idea suggested that none of the earnings of the unified system should go to the shareholders of the Canadian Pacific Railway until the service of the debt of the Canadian National Railways is fully met. To hand over for the service of this debt earnings which the Canadian Pacific would have been able to make under separate operation would obviously be a mere surrender of the valuable and honest property rights of the Canadian Pacific shareholders without compensation.

What I have suggested, and suggest today, is that we should plan to divide the net earnings of the unified properties to give to each group of owners the net earnings which would have resulted if each had operated their own railway, together with a fair share of the savings resulting from unification. There is much misunderstanding in this regard. Many have confused the total net earnings after unification with the savings from unification. The earning power of the two separate systems is a matter of record. The increased earning power of the combined properties arising from unification is another matter. My plan contemplates the division of such increased earnings on a fair basis. This is a matter which can only be settled by negotiations between the interested parties but obviously the shareholders of the Canadian Pacific would have to concede to the Government at least one-half of the net gain resulting from unified management. Those who have said the Canadian Pacific would claim the lion's share have either misunderstood my proposal or purposely misrepresent it.

What I do say is that unification of the two systems will give us the cheapest possible transportation service which can be obtained, commensurate with fair dealing to transportation workers

and to honest investors. I say that the savings to the people of Canada will be large. And I say that the solution of this problem on fair and sound lines will produce benefits to Canada far in excess of mere operating savings. It will stimulate business and restore confidence at home and credit abroad. It is a simple and common sense measure, and after it has been adopted those who now try to obstruct it will be forced to admit the folly of their fears. Had such a plan been adopted twenty years ago or even fifteen years ago, when the failure of the grandiose experiments in railway overbuilding became apparent, the national debt of the country would be hundreds of millions of dollars less than it now is. That is your debt. You and your children will pay it. Are you in favour of continuing to pile it up?

Gentlemen, I promised you frankness, and I have tried to keep my word. On all the topics with which I have dealt I have tried to put the interests of Canada first. Our present difficulties are partly the result of forces which are world-wide, but not in small degree are they the consequences of our own past errors. Every major error in our history has resulted from the mistaken concept of Government as the source of benefits for individuals and sections. The time has come to alter that—if we are to survive and prosper. Service of individuals, individual groups and sections of the country to the whole state is the only safe road for the future. I appeal to you to make it the dominating note of our public and private affairs, for your sake and that of future generations of Canadians.





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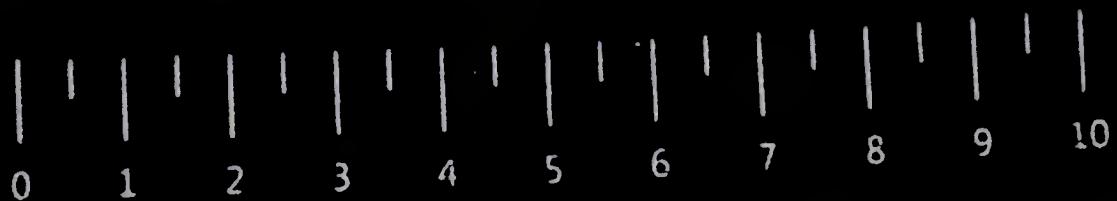
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